DOCUMENT RESUME

ED 120 615 CG 010 444

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TITLE Conduplicate Implication of Job Change-Residence Change.
PUB DATE 18 Aug 75
NOTE 18p.

EDRS PRICE MF-$0.83 HC-$1.67 Plus Postage
DESCRIPTORS Career Change; Consumer Economics; *Costs; *Decision Making; Guidelines; *Occupational Mobility; *Relocation; Residential Patterns

ABSTRACT

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ED120615

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AUG 18 1975

Conduplicate Implication of Job Change-Residence Change

Richard Marshall

This paper proposes to offer guidance and a decision tree checklist to those professional, federal, state, municipal, charitable and educational institutional employees who are not privy to relocation expense packages and are thereby left to their own devices to accomplish the move.

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Approximately eight per cent of the work force in the United States change job annually, concurrently a like amount of residential real estate transfers take place due to change of situs of principal employment.

Corporate relocation benefit packages provide generous resources for its employees and recruits. Individuals not included in relocation services are subjected to the vicissitudes of the market place which may result in a serious economic reversal. Potential gains from job change motivated by the economic advantage are frequently wiped out due to expenditures arising out of residential sale/ purchase and relocation expenses.

Personnel administration has grown by sizeable dimensions in the phalanx of corporate services divisions. Relocation services receive guantum sufficient budgets in the allocation of funds with an open window at the companies treasury department, as it has become of age. Real Estate specialists are placed in the corporate infrastructure to manage relocation services. Company transfer benefit plans are designed to 'induce' those who are being promoted, moved latterly or being recruited. In each instance the benefit package is structured to reflect the station in life along the hierarchical labyrinth.

For comparative purposes only, an inexhaustive sample of the benefit package may include: moving expenses, subsidy of interest rate on the mortgage covering the new home purchased should the rate exceed that of the former, closing costs covering old and new residence should local custom require seller to pay, costs for breaking lease, i.e., buying up the unexpired lease obligations where tenancy exists, down payment loan (some companies make arrangements only) time off and travel expenses for home selection, hotel living expenses, realty fees both on the purchase and sale and an optional purchase plan by company whereby company agrees to purchase home from employee after diligent effort by employee results in no sale. Some company plans include items such as: club fees and dues, alteration of rugs and draperies, automobile license and registration fees, overlapping carrying charges, babysitting fees and kennel charges. A number of plans include a reimbursement of any federal income tax liability resulting from a gain on the sale of the former residence.

For those not in the corporate structure where the benefit package is available the real estate expenditures and associated costs of job change may have a far greater economic impact on disposable income than the salary spread may suggest.

Costs associated with the transfer of real estate are present in each transaction and are unavoidable. Those related to job change must therefore be assessed prior to making the commitment to change. The acquisition costs of the new residence, an inopportune disposition of the former residence may more than wipe out the projected economic advantage of the job switch.

Some aspects of the decision tree--

Assessment of current living cost, monthly outlay for rental, or in the case of residential purchase monthly outlay for mortgage, taxes and operating expenses together with transportation expenses.

An appraisal prepared by a professional independent appraiser which objectively sets forth the market value of the present residence and will also reflect favorable or unfavorable existing financing on the present homesite. This will be a useful hand tool in determining the real costs of relocation. Favorable financing does affect the market value of real estate. On resale, during periods of monetary restraint the seller may actually obtain a premium over comparable properties, where the purchaser is allowed to assume the mortgage. Adequate time is necessary to undertake

the appraisal and the attendant analysis of a two or three year operating expense of the residence.

Coordinating the Disposition of Present Home with the Purchase of the Prospective Homesite

A guandry normally arises whether a sale should be effected prior to removal or subsequent to removal where no benefit relocation services are available. Selling the existing homesite first after the aforementioned earlier steps have been made provides a feel for the market as well as the financing available for the purchase of a new house. Mortgage markets are generally local in nature though statistics are given on a national basis and therefore cannot be relied upon as an indication of funds available at a given area or at what rates. Selling the homesite with a view to utilizing those funds for the (down payment) in the new, actually is a substitution of internal equity funds from one security to another. This act of substitution of security is perilous and fraught with danger as the security/values may indiscernibility differ. By selling the existing homestead first obviously eliminate the risks of owning two homesites concurrently with all of the attendant financial obligations.

A second premise which appears diametrically opposite is to select the new homesite, secure permanent financing and

close title on new home using cash savings or increase the mortgage on old homesite allowing those proceeds to be used as internal funds. The risks to this approach are apparent: The hedging will require two monthly outlays; also should the real estate market turn soft a substantial loss could be sustained resulting from a short fall on the sale.

The advantages of either strategy lie in the ability to weigh the sell first-buy first decision against prevailing residential markets in both locations. An appraisal of the residential market is imperative together with an economic analysis and a chat with an informed local banker. During periods of tight money grave consequences may result in an ill timed move.

Problems also arise where the seller decides to build a new residence in an unfamiliar location, financing, neighborhood selection, builder reliability and occupancy delivery all loom as potential costly problems. Under imperfect market conditions which is more prevalent than not, a seller's market exists resulting in the purchaser paying more than the underlying market value. The purchaser pays a price reflecting a strong demand by others in the market and his personal desire to 'get settled' to report to his new job.

Housing usually represents the largest single personal investment and therefore should not be a decision made on a tightrope.

Renting Prior to Purchasing

Renting is an alternative to an impetuous selection of homesite. It affords additional time to make a selection free from time pressures and also during periods of monetary restraint to await a better mortgage market. The converse to this theory is that prices are constantly rising, therefore any delay is costly. Renting a house or an apartment unit during periods of monetary restraints may have long lasting benefits. During periods of tight money the internal funds required (down payment) may exceed that required during liberal periods by as much as ten-twenty percent on the up side. Through this vehicle financial institutions can regulate their mortgage commitments. A second method of regulating the volume of mortgage commitments is the interest rate imposed during periods of tight money where the differential may amount to as much as one hundred to two hundred basis points (1% or 2% or fractions thereof). Larger interest charges have two undesirable features (1) less equity build up during the early years, (2) the property with a high interest

How Much Your Present Mortgage Costs You

Total Interest per $1,000

Interest Rate	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
4¼%	$118	$244	$377	$ 518	$ 668	$ 824
4¾	125	258	400	551	710	878
5	132	273	423	584	754	933
5¼	139	288	447	617	798	988
5½	146	302	471	651	842	1,044
5¾	153	317	495	685	887	1,101
6	160	332	519	719	933	1,158
6¼	167	347	543	754	979	1,217
6½	174	363	568	789	1,026	1,275
6¾	181	378	593	825	1,073	1,335
7	188	393	618	860	1,120	1,395
7¼	195	410	643	896	1,169	1,459
7½	202	426	670	934	1,217	1,520
7¾	210	441	696	970	1,268	1,581
8	217	457	721	1,009	1,316	1,642
8¼	224	472	748	1,047	1,367	1,707
8½	231	488	775	1,083	1,418	1,768
8¾	238	505	800	1,122	1,469	1,833
9	246	520	827	1,160	1,520	1,898
9¼	253	537	854	1,198	1,571	1,963
9½	261	553	881	1,239	1,622	2,028

See IBP Real Estate Investment Planning, ¶55,335.

rate mortgage becomes less desirable on the resale market should a subsequent purchaser seek to assume the mortgage, especially during a period of monetary restraint. Finally in the evaluation of the property itself a high interest rate negates the value, either indicating that the lending institution concluded the security was risky or the borrower was less than desirable or both. In the absence of any negative influences real estate as an investment generally appreciates at a rate in excess of the accepted rate of inflation, thereby assuring the preservation of capital, the highest criteria of a good investment, and its concommitant marketability. However, there are real costs associated with real estate investment such as commissions, closing costs and financing fees. These costs may in the aggregate have a range of 10-15% of the purchase or sale price, therefore a round trip purchase and sale within a short period of time may result in a substantial diminution of equity. An ill timed or poor selection cannot be readily cured without the possibility of incurring a loss.

Selecting the Broker

Both the purchase and sale transactions can best be facilitated by dealing through those professionals who aim

to create and participate in a local market. The real estate market is informal, volatile and does not lend itself to excursions by the unsophisticated. Whether the seller desires to post his property with a broker under a so-called exclusive listing or a multiple listing (whereby one broker controls, but members of the association are exposed to the listing) depends upon the alacrity and sales organization of the brokerage firm. The ideal transaction can possibly only take place when maximum 'exposure' is accomplished for the sale of the security. By definition "market value" is that 'price a property will bring in the open market when exposed for sale for a reasonable time, neither purchaser or seller being under duress and both being informed of the use or uses to which the property can be adopted'. The author suggests that one of the key phrases contained in the definition is 'exposed for a reasonable time'. Some brokers specialize in obtaining listing of sales with an effort to dominate the sale market; such activity does not necessarily inure to the benefit of the homeowner who wishes to unload immediately. Likewise the multiple listings give a possible broad exposure with no single broker's concentrated effort.

Mortgage and Tax Considerations

Historically available mortgage funds have reflected the monetary policy established by the Federal Reserve Bank. Past monetary policies have created erratic behavior patterns in the mortgage markets, unpredictable changes rarely coincide with personal wishes. These cycles together with usury laws (regulations by states on the upper limit of permissible interest charges) supersede the normal forces of the market place. The supply and demand for funds stimulates or alternatively stymies the production of housing. Housing starts, available existing housing and financing for all categories do in the main bear intrinsically on the perfect or near perfect market condition for real estate. Monthly outlay for housing accommodations formulas are strictly adhered to by lending and mortgage loan analysts; most institutions require that one week's income be sufficient to defray one month's principal, interest and real estate taxes. Or in the alternative that the purchase price shall not exceed 2½ times the purchaser's annual income.

High interest rates inter alia often preclude the purchaser from obtaining the homesite that he may well otherwise qualify for; that is to say, there exists, prospective

purchasers with the initial down payment, but lack the means to amortize the loan at the prevailing interest rates. Prepayment penalties may attach to an effort to retire the mortgage before maturity. A careful reading and calculation of the penalty clause prior to concretizing the job change is suggested.

Conclusion

Opportunities for switch in employment do have weighed correlative imponderables, one of which is the unavoidable real estate transaction where relocation is required.

Purchaser's Checklist - also Seller's Liability

where Local Custom Dictates --

Brokerage Fees

Advertising fee (if no brokerage)

Attorney's fees

Federal Tax Stamps

Recording and Discharge of Mortgage fees

Penalty for Pre-payment of mortgage

Tax on the transfer of real estate

State and municipal in some locales as dictates

Cost of Abstracting titles

Title Insurance (seller may be required to pay in some areas)

Tax Search

Water Search

Survey Expense

Escrow or Conveyancing fee

Termite and structural fee